

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 CIAE-00 COME-00 EB-11 INR-11

LAB-06 NSAE-00 RSC-01 SIL-01 IO-14 DODE-00 PM-07 H-03

L-03 NSC-07 PA-04 PRS-01 SP-03 SS-20 USIA-15 SAM-01

DRC-01 OMB-01 TRSE-00 /150 W
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R 290908Z AUG 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3983

INFO AMCONSUL MELBOURNE

AMCONSUL SYDNEY

AMEMBASSY WELLINGTON

AMEMBASSY PARIS

AMCONSUL PERTH

AMCONSUL BRISBANE

AMCONSUL PORT MORESBY

C O N F I D E N T I A L SECTION 1 OF 2 CANBERRA 5670

E.O. 11652: GDS

TAGS: PINT

SUBJ: AUSTRALIA'S TROUBLES AND WHITLAM'S TROUBLES -- A GATHERING
CRISIS

REF: CANBERRA 52523 AND 5525; MELBOURNE 0984; CANBERRA 5669

PARIS FOR USOECD

1. SUMMARY: PRIME MINISTER WHITLAM'S LEADERSHIP STATURE HAS BEEN
SERIOUSLY UNDERMINED OVER PAST MONTH AS GOVERNMENT STRUGGLES IN
DISORGANIZED FASHION TO STEM GROWING INFLATION. AUSTRALIAN
PUBLIC IS CONCERNED BY SENSE OF DRIFT AND BY FEARS THAT UN-
MANAGEABLE INFLATION MAY RAPIDLY BE COMBINED WITH UNEMPLOYMENT
AND GENERAL ECONOMIC DOWNTURN. THIS CABLE ANALYZES AUSTRALIA'S
SEVERE DOMESTIC TROUBLES AND SUGGESTS LIKELY DIRECTION OF EVENTS
AND SOME IMPLICATIONS FOR U.S. INTERESTS. END SUMMARY

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2. ACCELERATING INFLATION AND THE APPARENT INABILITY OF THE AUSTRALIAN POLITICAL SYSTEM TO COPE WITH IT HAS CAUSED A PERVERSIVE SENSE OF GLOOM AND ANXIETY. THE CONSENSUS PREDICTION OF A 20 PERCENT INFLATION RATE BY YEAR'S END HAS LED TO CUMULATIVE, EXTRAVAGANT WAGE DEMANDS BY MAJOR UNIONS AND PERSISTENT DEBILITATING STRIKES. MEANWHILE GOA'S RESTRICTIVE MONETARY POLICY HAS BEGUN TO BITE AND UNEMPLOYMENT IS EDGING UPWARD. A MAJOR NATIONWIDE CONSTRUCTION FIRM HAS GONE INTO RECEIVERSHIP, CAUSED LARGELY BY LACK OF LIQUIDITY, SPARKING NERVOUS SPECULATION ABOUT AN IMPENDING ECONOMIC TURNDOWN.

3. MORE BROADLY, THERE IS IN AUSTRALIA AN AURA OF SELFISHNESS AND STRUCTURAL ANIMOSITY, WITH THE STATES AGAINST CANBERRA, THE ALP CAUCUS AGAINST WHITLAM, THE OPPOSITION AFTER NARROW POLITICAL ADVANTAGE, INDIVIDUAL UNIONS ELBOWING FOR MATERIAL GAIN, CORPORATIONS PASSING THE COST OF EXCESSIVE WAGE SETTLEMENTS ON TO THE CONSUMER, RURAL INTERESTS CLAIMING DISCRIMINATION AND NONE OF THESE PLAYERS MOTIVATED BY CONCERN FOR NATIONAL WELL BEING.

4. WHITLAM HAS BEEN ALOOF AND SILENT DURING PAST THREE WEEKS, MAKING NO NEWS FOR FIRST TIME SINCE HE WON GOVERNMENT IN DECEMBER 1972, AND NOT EVEN TAKING PART IN URGENT CABINET ECONOMIC SESSIONS. IN RECENT CONVERSATIONS WITH CHARGE, PETER WILENSKI, FORMER PRINCIPAL PRIVATE SECRETARY TO WHITLAM AND STILL ONE OF HIS INTIMATES, COMMENTED THAT WHITLAM IS IN A FATALISTIC MOOD, IRRITATED BY CONFLICTING COUNSEL, DISPOSED TO ALLOW EVENTS TO TAKE THEIR COURSE AND UNCERTAIN AS TO HOW TO HANDLE COMPLEX ECONOMIC PROBLEMS. JACK EGERTON, SENIOR VICE-PRESIDENT OF ALP AND PROMINENT TRADE UNIONIST, TOLD AMCONSUL FRIEDMAN IN BRISBANE THAT HE HAD SPENT MOST OF AUG 19 WITH WHITLAM. EGERTON SAID WHITLAM SEEMED ALMOST INDIFFERENT, APPEARING TO HAVE LOST TASTE FOR OFFICE, DISPOSED TO LEAVE DIRECTION OF ECONOMIC POLICY TO OTHERS. EGERTON SAID THAT HIS OWN STATEMENT CRITICAL OF STRIKE ACTION BY TRADE UNIONS (MELBOURNE 984) HAD BEEN CONCERTED BETWEEN HIMSELF AND MINISTER FOR LABOR CLYDE CAMERON, SINCE WHITLAM WOULD NOT TAKE REINS. NEW SOUTH WALES ALP LEADERS (DUCKER AND CARR) HAVE TOLD CONGEN HANNAH THEY WERE CONCERNED BY WHITLAM'S CURRENT TENDENCY TO DELEGATE PRACTICALLY EVERYTHING. ECONOMIC POLICY HAS NEVER BEEN WHITLAM'S BAG, BUT CONFIDENTIAL

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UNTIL PRESENT CRISIS HE HAS BEEN PREPARED TO SEEK ADVICE AND TO EXERT LEADERSHIP.

5. UNTIL RECENT DAYS WHITLAM HAD BEEN ASSOCIATED WITH AND HAD IMPLEMENTED POLICIES RECOMMENDED BY TREASURER CREAN AND HIS DEPARTMENT. DURING REVIEW OVER PAST MONTH, DIRECTED PROMINENTLY BY DEPPRIMIN CAIRNS, AND SUBSEQUENT CABINET BUDGET DELIBERATIONS, THE TREASURY POSITION--THAT TIGHT CREDIT POLICY SHOULD BE MAIN-

TAINED AND REINFORCED BY A SURPLUS BUDGET WITH REDUCED GOVERNMENT SPENDING--HAS BEEN DRAMATICALLY REJECTED. IN FACT, CAIRNS AND OTHER MINISTERS HAVE CHASTISED TREASURY FOR RECOMMENDING OUTMODED KEYNSIAN POLICIES AND FOR BEING PREPARED CYNICALLY TO INDUCE HIGH LEVELS OF UNEMPLOYMENT. CAIRNS HAS ADVOCATED TAX REDUCTIONS, CONTINUED EXPENDITURE ON ALP PROGRAMS, AND VARIOUS DEVICES FOR COOLING DOWN WAGE INCREASES.

6. WHITLAM HAS SUSTAINED HARSH CRITICISM FROM OPPOSITION AND PRESS FOR BEING "UNWILLING OR UNABLE TO LEAD" AND FOR PERMITTING DRIFT IN ECONOMIC POLICY. HE BROKE LONG SILENCE AUGUST 26 WITH EIGHT-MINUTE FIRESIDE CHAT ON TELEVISION. PM SPOKE IN HIS USUAL CONFIDENTY STYLE, WARNING UNIONS THAT IRRESPONSIBLE STRIKES AND EXCESSIVE WAGE DEMANDS COULD NOT BE TOLERATED. HE REJECTED ANY SOLUTION TO INFLATION BASED UPON "MASS UNEMPLOYMENT", STATED (PROBABLY ACCURATELY) THAT DEMAND-PULL INFLATION WAS NOW LARGELY CONTAINED AND THAT NATION MUST COME TO GRIPS WITH THE COST-PUSH OF SOARING WAGE INCREASES.

7. HOWEVER, AFTER CALLING FOR RESTRAINT FROM UNIONS, WHITLAM INDICATED THAT BUDGET TO BE ANNOUNCED SEPT 19 WOULD NOW BE BROADLY EXPANSIONARY, WITH SEDUCTIVE TAX CUTS FOR LOWER INCOME FAMILIES AND INCREASED EXPENDITURE ON SOCIAL PROGRAMS. HIS ADDRESS WAS UNIVERSALLY CRITICIZED BY PRESS AS INADEQUATE AND TARDY EXPRESSION OF LEADERSHIP, AS ABRUPT REVERSAL OF HIS PAST POLICIES, AND AS AN EASY APPEAL TO VOTERS IN "NIXON RHETORIC" ESCHEWING NECESSARY BUT UNPLEASANT ANTI-INFLATIONARY MEDICINE. INFLUENTIAL MELBOURNE AGE HAS BECOME OUTRIGHT ADVERSARY OF WHITLAM GOVERNMENT AND HAS PUBLISHED SERIES OF EDITORIALS ATTACKING GOA ECONOMIC POLICY. MORGAN-GALLUP POLL PUBLISHED AUGUST 28 REPORTED THAT ONLY 41 PERCENT OF ELECTORATE NOW APPROVED OF HOW WHITLAM WAS DOING HIS JOB AS COMPARED TO 58 PERCENT AT TIME OF MAY 18 ELECTION. (ACCORDING TO SAME POLL VOTER APPROVAL OF OPPOSITION

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LEADER SNEDDEN ALSO DECLINED BY 5 PERCENT TO 37 PERCENT.) FOLLOWING HIS BRIEF AND UNSUCCESSFUL RETURN TO PUBLIC ATTENTION AUGUST 26, WHITLAM HAS DEPARTED FOR FIVE DAYS OF SECLUDED VACATION IN QUEENSLAND.

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INFO OCT-01 EUR-25 ISO-00 CIAE-00 COME-00 EB-11 INR-11

LAB-06 NSAE-00 RSC-01 SIL-01 IO-14 DODE-00 PM-07 H-03

L-03 NSC-07 PA-04 PRS-01 SP-03 SS-20 USIA-15 SAM-01

OMB-01 TRSE-00 DRC-01 /150 W
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R 290908Z AUG 74

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8. MEANWHILE CAIRNS AND LABOR MINISTER CAMERON CONTINUE TO MAKE PUBLIC STATEMENTS WHICH RULE OUT "TREASURY'S POLICIES OF UNEMPLOYMENT" BUT CRITICIZE EXCESSIVE WAGE DEMANDS. THEY PLACE MAJOR BLAME FOR INFLATION UPON INTERNATIONAL ECONOMIC PROBLEMS, UPON MULTINATIONAL CORPORATIONS, OR UPON "THE SYSTEM".

9. IN OBVIOUS DISARRAY OVER GOVERNMENT'S PUBLIC REJECTION OF ITS RECOMMENDATIONS, TREASURY HAS ANNOUNCED THAT THIS YEAR FOR FIRST TIME IT WILL NOT RELEASE ANNUAL BUDGET WHITE PAPER ANALYZING ECONOMY. TO COMPOUND EMBARRASSMENT, RESERVE BANK'S ANNUAL REPORT, PUBLISHED AUGUST 27 BUT EVIDENTLY PRINTED IN JULY, LAUDS WHITLAM'S DETERMINED RESTRICTIONARY POLICIES THEN STILL BEING PURSUED AND WARNS SOMBERLY THAT ANY EARLY LET UP WOULD AGGRAVATE INFLATION AND MUST BE RESISTED.

10. ACTU PRESIDENT BOB HAWKE HAS CONVENED NATIONAL CONFERENCE OF AFFILIATE UNIONS SEPT 23. HAWKE HAS ANNOUNCED SHOPPING LIST
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OF LARGELY INFLATIONARY UNION DEMANDS WHICH, HE SAYS, IF MET BY GOVERNMENT, COULD SET STAGE FOR UNION RESTRAINT. HIS ABILITY TO ESTABLISH DISCIPLINE AMONG UNIONS, EVEN IF PREREQUISITE DEMANDS WERE MET, IS QUESTIONABLE. HAWKE AND ENTIRE ACTU EXECUTIVE ARE LOCKED IN HIGHLY EMOTIONAL CONFRONTATION WITH GOVERNMENT OVER

INTERVENTION OF LABOR MINISTER CAMERON IN WAGE NEGOTIATIONS BETWEEN QANTAS AND PILOTS' UNION. PILOTS HAVE REFUSED OFFER OF 27 PERCENT INCREASE TO A TOP SALARY OF A\$45,000 (\$US 67,000). CAMERON UNDERSTANDABLY REGARDS THIS CONDUCT AS OUTRAGEOUSLY INFLATIONARY, WHILE UNION LEADERSHIP IS TAKING STRONG STAND OF PRINCIPLE AGAINST GOVERNMENT INTERFERENCE IN INDUSTRIAL SETTLEMENTS. EMBASSY IS REPEATING TO DEPARTMENT MELBOURNE 1019, LABATT'S REPORT OF REMARKABLE SESSION WITH HAWKE THIS MORNING.

11. CONCLUSIONS AND PROBABLE DEVELOPMENTS.

A. ECONOMIC SITUATION SEEMS SURE TO DETERIORATE FOR SOME MONTHS. EXPANSIONARY BUDGET ALONG LINES OF AVAILABLE LEAKS AND HINTS WILL FUEL INFLATION. IT WOULD REQUIRE A MIRACLE TO OBTAIN SPIRIT OF COMMON RESTRAINT FROM UNIONS. BALANCE OF PAYMENTS, ALREADY IN DEFICIT, WILL LIKELY DROP FURTHER. PUBLIC ANXIETY AND UNCERTAINTY IS ITSELF CONTRIBUTING TO EROSION, AND EVEN CAIRNS IS WARNING THAT DESPITE HIS NEW POLICIES THERE WILL BE A LAG CAUSING GREATER UNEMPLOYMENT.

B. BOTH GOVERNMENT AND OPPOSITION WILL RESIST EARLY ELECTIONS, GOVERNMENT FOR OBVIOUS REASONS AND OPPOSITION FROM DISTASTE FOR RETURNING TO COPE WITH ESSENTIALLY UNMANAGEABLE CRISIS. OPPOSITION LEADERSHIP EXPECTS THAT TIME WILL BE MORE RIPE WHEN ECONOMY BOTTOMS OUT IN A YEAR OR 18 MONTHS. WE CAN NOT RULE OUT EARLIER ELECTIONS BEING FORCED BY CIRCUMSTANCES, BUT AS OF NOW THIS SEEMS UNLIKELY.

C. DIVISIVE STRAINS WITHIN LABOR PARTY WILL BE EXACERBATED AS TENSIONS AND FRUSTRATIONS INCREASE. EFFORTS BY GOVERNMENT--OR BY INDIVIDUAL MINISTERS--TO BRING PRESSURE UPON UNIONS SEEMS CERTAIN TO CAUSE EXPLOSIVE CONFLICT.

D. FOR SOME MONTHS AT LEAST ALP AND NATION GENERALLY WILL TEND TO BE ABSORBED BY INTERNAL PROBLEMS AND TO DEVOTE LESS ATTENTION TO INTERNATIONAL MATTERS AND FOREIGN RELATIONS. IT WOULD BE CONFIDENTIAL

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DIFFICULT FOR WHITLAM, AT LEAST OVER SHORT TERM, TO REDRESS HIS POSITION THROUGH DRAMATIC FOREIGN POLICY ANNOUNCEMENTS OR OVERSEAS TRIPS.

E. WHITLAM'S PERSONAL DOMINANCE OF ALP AND OF AUSTRALIAN SCENE APPEARS ENDED. HE WILL SURELY RECOVER FROM PRESENT UNCHARACTERISTIC SLUMP BUT IS UNLIKELY TO REGAIN HIS PREEMINENT POSITION. HE HAS BEEN CHALLENGED SUCCESSFULLY BY CAUCUS (E.G. CAIRNS' ELECTION, PARLIAMENTARY PAY INCREASES) AND BY HIS CABINET (ECONOMIC POLICY, THE BUDGET). HIS INABILITY TO ENLIST UNION SUPPORT IS ALL TOO OBVIOUS. WHITLAM'S WEAKENED POSITION WITHIN ALP GOVERNMENT HAS WORRISOME IMPLICATIONS FOR U.S. WE HAVE

RELIED UPON HIS BASIC MODERATION AND HIS SUPPORT OF U.S.
DEFENSE FACILITIES AND OTHER U.S. INTERESTS.

F. CAIRNS HAS BUILT HIS IMAGE AS RESPONSIBLE AND POPULAR
STATESMAN OVER PAST TWO MONTHS, AS GOOD LISTENER WHO IS RECEPTIVE
TO ALL POINTS VIEW. AS MAN OF HUMANITY AND INTEGRITY. HE IS
MORE AND MORE ACCEPTABLE TO BUSINESSMEN DESPITE HIS FRANK
SOCIALIST OBJECTIVES. NEVERTHELESS, HE SEEMS REGARDED BY SOME
ALP COLLEAGUES AS OPPORTUNISTIC AND INSUFFICIENTLY TOUGH AND
PURPOSEFUL TO LEAD THE PARTY. WE STILL HESITATE TO REGARD HIM
AS A REAL ALTERNATIVE TO WHITLAM. IRONICALLY, DESPITE WHITLAM'S
PRESENT ECLIPSE IT IS NOT CLEAR THAT THERE ARE REAL
ALTERNATIVES. ALP IS UNDERGOING A CRISIS OF LEADERSHIP.
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